



China – views from the European Commission

**AIECE Working Group on Longer-Term Prospects
and Structural Change**

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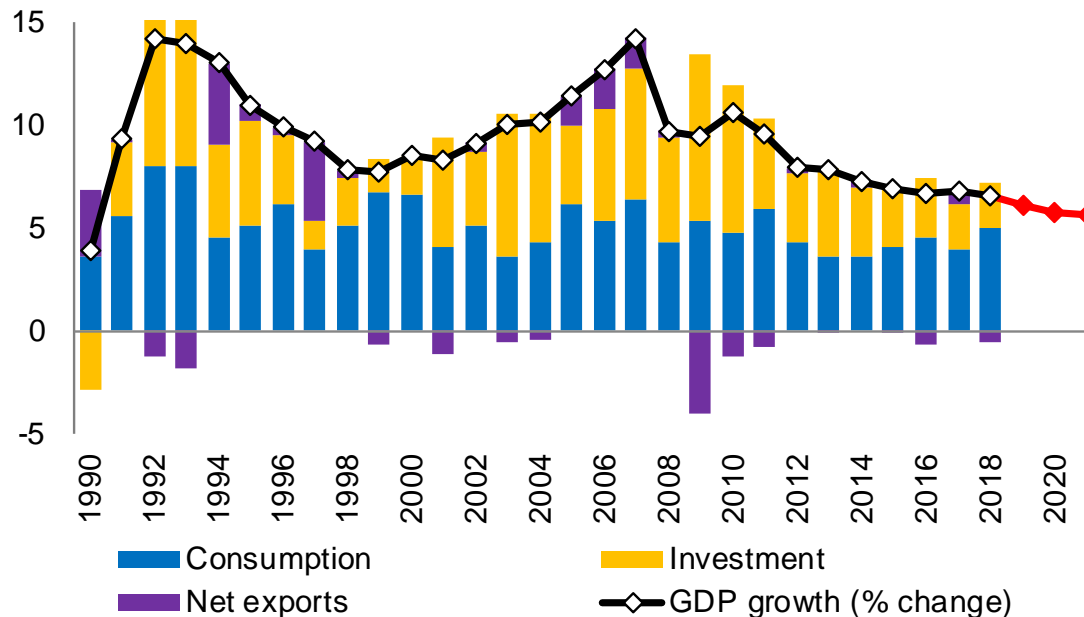


Outline

- **Chinese economy:**
 - ✓ **Current situation and short-term outlook**
 - ✓ **Medium and long-term challenges**
- **EU-China policy:**
 - ✓ **Key challenges and opportunities**
 - ✓ **Recent developments**
 - ✓ **EU policy response**
- **Conclusions**

Chinese economy: Following four decades of rapid growth and development, the Chinese economy is losing steam

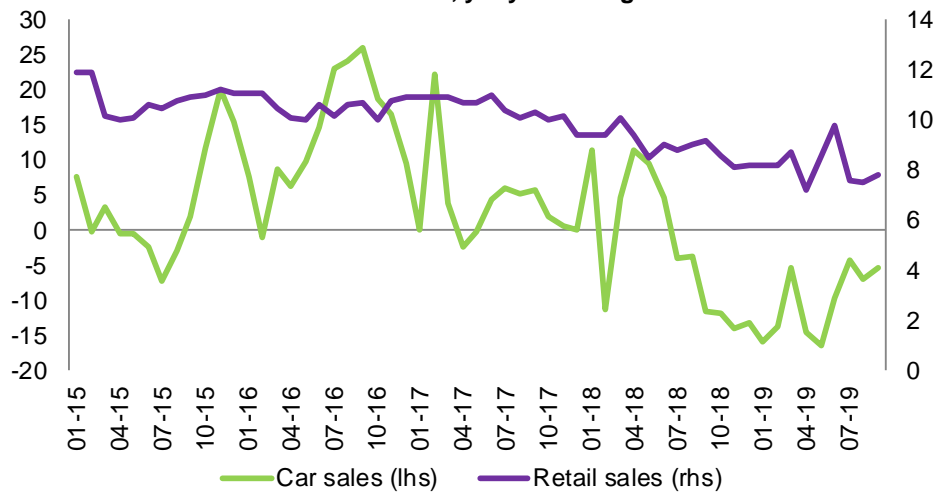
Contributions to real GDP growth, 1990-2018



Source: China National Bureau of Statistics

... amid intensifying downward pressure from both the external environment and softening domestic demand

China - Sales, y-o-y % change



Sources: China National Bureau of Statistics and China Association of Automobile Manufacturers

China - Trade values, y-o-y % change



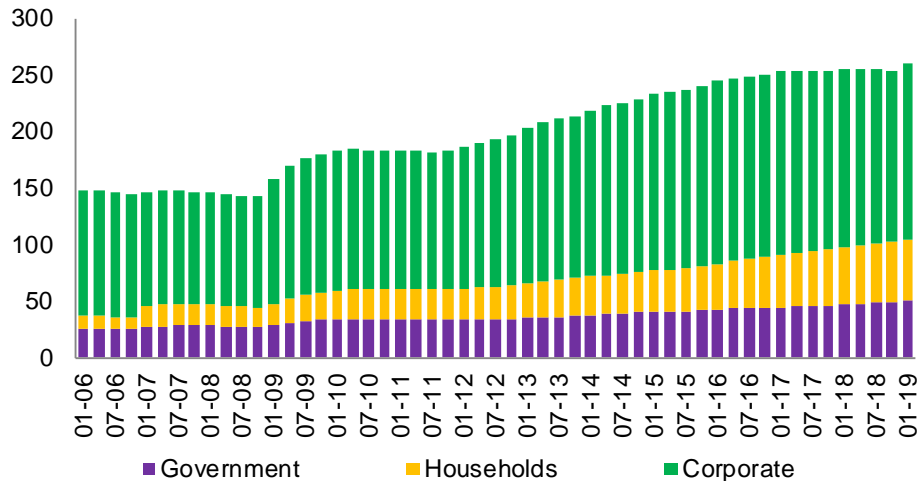
Source: General Administration of Customs of China

Medium and long-term challenges

High debt burden, financial stability risks

Declining productivity growth

China - Credit to non-financial sectors, % of GDP



Source: The Bank for International Settlements



Source: World Bank

Medium and long-term challenges

- ✓ *Misallocation of resources*
- ✓ *Adverse demographic trends*
- ✓ *Environmental challenges*
- ✓ *Rebalancing the economy from investment- and export-led growth to consumption-based growth*
- ✓ *Large regional disparities*

➔ Can past success be extrapolated?

China's policy response

- ✓ *Short-term policy stimulus to contain the slowdown*
- ✓ *Deleveraging and de-risking campaign*
- ✓ *Gradual opening up to foreign investment*
- ✓ *Efforts to gradually modernise policy frameworks (monetary, fiscal, exchange rate)*

BUT: centralisation of political power and strengthening of the role of the state at the same time

EU-China relations: key opportunities and challenges

- **Opportunities:** a vast and growing market (world's 2nd largest economy), EU's second biggest trading partner, global manufacturing hub, potential for co-operation on global issues (climate change, SDGs, R&D, etc.), ...
- **Challenges: how to deal with the state capitalism model?**
 - ✓ *Market access, reciprocity in FDI and public procurement*
 - ✓ *Subsidies and the role of SOEs*
 - ✓ *IPR protection, forced technology transfer*
 - ✓ *Security, cybersecurity*
 - ✓ *Debt transparency (BRI, investment and influence in the EU and in third countries)*
 - ✓ *Standardization and certification*
 - ✓ *Human rights issues, social credit system*
 - ✓ *...*

EU-China relations – recent developments:

- **Joint Communication of 12 March 2019: EU-China – A strategic outlook**

“... balance of challenges and opportunities presented by China has shifted”
- **A more realistic, assertive and multi-faceted approach with three main objectives:**
 - ✓ **deepen EU engagement with China to promote common interests at global level**
 - ✓ **seek more balanced and reciprocal conditions governing the economic relationship**
 - ✓ **adapt to changing economic realities and strengthen its own domestic policies and industrial base**
- **Joint Statement of the EU-China Summit of 9 April 2019: agreement on concrete commitments and follow-up**

EU-China relations: EU policy response

- **10 concrete actions proposed in the March Communication, including:**
 - ✓ **Implementation** of existing joint EU-China commitments (reforming the WTO, in particular on subsidies and forced technology transfers, concluding bilateral agreements on investment, on geographical indications, and on aviation safety).
 - ✓ Promoting **reciprocity** and open up procurement opportunities in China (e.g. the International Procurement Instrument)
 - ✓ Identifying loopholes and gaps in EU law that impede a **level playing field** (competition policy, public procurement, investment, etc.).
 - ✓ **A common EU approach** to the security of 5G networks.
 - ✓ Swift, full and effective **implementation** of the Regulation on screening of foreign direct investment.

EU-China relations: EU policy response

- EU engagement with China is firmly embedded in the international context (G7, G20, WTO, etc.):
 - ✓ **Transparency of lending** for infrastructure, including investment under BRI (G20 operational guidelines for Sustainable Financing, China's engagement in the Paris Club)
 - ✓ **Level playing field for FDI and export finance** (International Working Group on Export Credits)
 - ✓ Reducing **overcapacity** in key sectors (e.g. Global Forum on Steel Overcapacity)
 - ✓ Engagement in the **WTO reform** process (EU-China Working Group on WTO reform)
- **Domestic policy: create a dynamic business and innovation environment, foster a smart regulatory ecosystem, support knowledge and skills, promote broad development and diffusion of technologies without picking winners.**

Conclusions

- **Chinese economy:** rapid growth and development in recent decades but a number of macroeconomic challenges and vulnerabilities ahead
- **EU-China policy:** need to deal with a state capitalism model with pervasive Communist Party control
 - ✓ **Constructive engagement based on multi-faceted approach**
 - ✓ **More emphasis on reciprocity, level playing field, implementation and enforcement in relations with China**
 - ✓ **Ensuring EU unity and common approach is important**
 - ✓ **Domestic policy framework fostering competitiveness, innovation and investment is crucial**



Thank you!